CASE STUDY

Flexit International

The Flexit Company manufactures and sells medical equipment. Their primary market is for clinic and home use, but they received approximately 15 percent of their profits from sales of equipment and spare parts to United Health Care, Inc.

Home use products are sold through medical equipment stores and larger chain stores such as Kmart, Target, and Sears.

History

Flexit began business in 1965 as a small manufacturer of medical equipment/products and sold their products- sphygmomanometer and thermometer - to clinics and hospitals. Their product line expanded slowly until the mid-1970s, when the health awareness panic took off in America. From 1970s until the present, the company expanded both product line and sales territory. They now sell to the continental United States but have never shipped outside that area.

The company president, Mr. Jim Goodbody, is a self-made individual who has always been able to take a direct hand in all company operations. The firm manufactures 100 percent of their products and utilizes motor transportation exclusively for shipments to customers. Flexit has three manufacturing locations. The home office and original plant is located in Ames, Iowa. That facility produces four of the eight Flexit products, including the mainstay of the firm's product sphygmomanometer sets. A plant in Oxnard, California, produces two other products (with the largest sales item being a digital thermometers), and the newest plant in Atlanta, Georgia, manufactures the remaining two products (the fastest growing products in Flexit's product line, pregnancy tests, are produced here). Products are only produced at one location, so there is no manufacturing overlap between plants. All overall corporate strategic planning activities are carried out by Mr. Goodbody and his staff at the Iowa facility, while operational planning activities are performed by the plants.

An International Opportunity

Market research done by an outside research firm in 1997 indicated that a large demand existed in several European countries for home medical equipment. Existing levels of competition in Europe were less than in the United States. Mr. Goodbody had indicated several times in the past that he would like to enter the European market and eventually become a dominant company there, as well as in the United States. However, because Flexit had no experience in international marketing, an initial determination was made that the optimal form of market entry had to be some form of exporting.

The task of developing an international marketing plan had been given to Mr. Sellem, head of Flexit's marketing operations. Mr. Sellem had been involved with Flexit for several years and before that was a sales representative in the Midwestern United States for a large medical equipment company. Like Jim Goodbody, Mr. Sellem had no international experience.

A direct-sales exporting approach was selected by Mr. Goodbody, and so Mr. Sellem and a few of the marketing staff traveled to European countries in 1998 and spoke with a number of wholesalers and retailers about the potential for their products in those markets. After completion of those discussions, Mr. Sellem returned to Ames with a glowing report to Mr. Goodbody. He believed that the market in Europe offered great potential to the company. The decision was made to contact a number of foreign distributors and select one as the means for initially penetrating the European market.

Entering the European Market

Mr. Sellem, in concert with Jim Goodbody, selected Physique, Ltd., as their foreign distributor. Physique was an established distributor, EU-based, that specialized in medical and health care equipment/products in the European Union (EU), several non-EU countries, and in many of the Eastern European countries on a limited basis. Flexit gave Physique exclusive rights to the EU market, and in turn, Physique agreed to provide product and service support, maintain inventories, provide sales efforts for Flexit, handle customs clearances and documentation, obtain the necessary foreign exchange for payments, and coordinate all logistics activities from the U.S. plants of Flexit to locations in the EEC.

The agreements were signed, and Flexit added a second work shift at each of its plants to produce the additional products needed for export. Because of a perceived need to penetrate the European market quickly, Flexit pulled out all the stops and produced the needed items at a record pace. Mr. Goodbody was justifiably proud of the way in which the firm had responded to the added workload and excitedly looked to a future time when the Flexit name would be firmly established in Europe. Mr. Goodbody anticipated that after the first year, 10 percent of Flexit's total production would be sold in the EU. That forecast was based on no market research but was the result of a consensus of management opinion in both Flexit and Physique, Ltd. Ten percent of Flexit's production would account for approximately $1 million in additional net sales revenue.

Initial Results of the European Operation

Physique reported to Flexit that initial response in Europe to the firm's products had been favorable. In fact, sales in the first three months had exceeded company projections. Extrapolated out for a full year, EU sales would account for approximately 20 percent of Flexit's total corporate sales volume. Sales breakdowns by product type revealed that sphygmomanometers were being sold in slightly fewer numbers than anticipated, digital thermometers and pregnancy tests were selling at almost double company projections, and the remaining items in Flexit's line were selling as expected. As a result, Flexit had continued its second shift at its three plants and was concentrating more of its resources on the European market. All seemed to be progressing nicely when suddenly, about five months into the European marketing effort, an email was received in Ames from Physique, Ltd.

According to the email, some problems had developed with respect to product quality. Apparently, some defective parts had been used during the production of the products at the plants, and units with those parts were experiencing high levels of product failure (inaccurate readings, false positive and false negative results). Unfortunately, in the rush to produce the additional products for Europe, Flexit had not had time to test the items prior to shipment. Product quality had never been a problem before, but in the past, Flexit had always tested every item before it left the factory.

Physique had requested an expedited shipment of replacement parts / products as soon as possible so that the parts would arrive in Europe no later than one week later. However, the inventory of spares / replacements at the plants was inadequate to meet Physique's request, so the firm had to drastically revise its production schedules and produce the parts on an emergency basis. In spite of heroic efforts by the firm, the shipments of replacement parts were not made until three weeks after the initial request by Physique. Mr. Goodbody kept his fingers crossed and hoped for the best.

Postscript

It did not take long for the results to come back from Physique. Although the first products that appeared on the heavily promoted EU market had sold quickly, subsequent sales had fallen off dramatically. Inventories of all Flexit products were at very high levels at all European locations. Product returns were significant, so in addition to the unsold items, inventories of returned merchandise were also at alarming levels. It was the recommendation from Physique that Flexit should let the market "settle down" before continuing their aggressive penetration policy. Mr. Goodbody reluctantly agreed and subsequently curtailed production of products destined for the European market. He thought, however, that the firm had lost a great opportunity and was at a loss to explain what went wrong. Perhaps it was beyond his, or Physique's, control and would have to be chalked up to a combination of bad luck and poor timing.

Questions

1. In light of the results of Flexit's attempt to penetrate the European market, do you believe that the company was wrong in even considering international expansion? What was the problem (s)?

2. What additional information would you like to have had before making the decision to enter the European market?

3.a Briefly identify the operational decisions (marketing, production, quality and logistics) that were incorrectly made by Flexit management.

3.b Draw Ishikawa diagram (Fishbone) of the current situation in Flexit?

4.a- If you were Mr. Goodbody, what will be the quality strategic and operational decisions and corrective actions that you will take? (List 10 actions/decisions)

4.b- What is the Risk Management Plan that you would put to manage any similar situation in the future?

5-What is your future European plan? Why? What would be the main features of your plan if the strategic decision would be to reintroduce Flexit's same products in the European market again?